



MEDALLION
WEALTH MANAGEMENT

Election Outlook



*"I'll tip my hat at the new constitution
Take a bow for the new revolution
Smile and grin at the change all around"*

The Who - Won't Get Fooled Again

https://www.youtube.com/watch?v=UDfAdHBtK_Q

The 2020 election is less than two months away, and how can it be anything but unprecedented. An election under the backdrop of a global pandemic, a government mandated recession, record unemployment, and more than a little social unrest. Even though President Trump is the incumbent, he still seems to be running as an outsider, especially when compared to the Democratic nominee, Joe Biden, who has spent 32 years as an elected official in Washington, and eight as Vice President.

The Who released *"Won't Get Fooled Again"* nearly 50 years ago, and it is still relevant today. As voters we've seen a lot over the decades, and the more we like to think this time is different, history reminds us that things really haven't changed that much. Trump is the 12th president since 1900 to run when there is a recession or bear market in election year. We've endured the Spanish Flu, the Great

Depression, numerous wars, and the social unrest of the 1960's, we'll endure 2020 and we'll choose a president.

I'm not sure how much credence we should give to history this election, but historically recessions do not bode well for incumbents. But then again we've never had a government-mandated recession, nor have we ever resorted to such immediate and massive monetary and fiscal stimulus, which has acted as a salve on both the economy and stock market to date.

Investors' biggest fear is a Biden win and a Democratic clean sweep that leads to higher taxes, more regulation, and a decidedly leftist bent. Biden's campaign hasn't released many details on an economic platform, but we do know their main proposal is to reverse the 2018 tax cut.

According to Ned Davis Research, if Biden raises corporate taxes from 21% to 28% then S&P 500 after-tax earnings will be reduced by anywhere between -12.7% to -4.2% depending on the true effective tax rate.

28% corp tax rate could lower SPX EPS 4-13%

| Biden's Proposed Corporate Tax Hike Impact on S&P 500 After-tax Income | | | |
|--|--|--------------------------|--|
| Line Item | Tax Rate | | |
| | 17.7% Effective (As of 12/31/2019) | 28% Stated (Biden) | 21.0% Effective (halfway of 2017 and 2019) |
| Pretax Income per Share (\$) | 174.73 | 174.73 | 174.73 |
| Income Taxes per Share (\$) | 30.67 | 48.92 | 36.69 |
| Effective Tax Rate (%) | 17.7 | 28.0 | 21.0 |
| Change in Taxes per Share (\$) | 0.00 | 18.25 | 6.02 |
| After-tax Income per Share (\$) | 144.06 | 125.81 | 138.04 |
| Change in After-tax Income (%) | 0.0 | -12.7 | -4.2 |

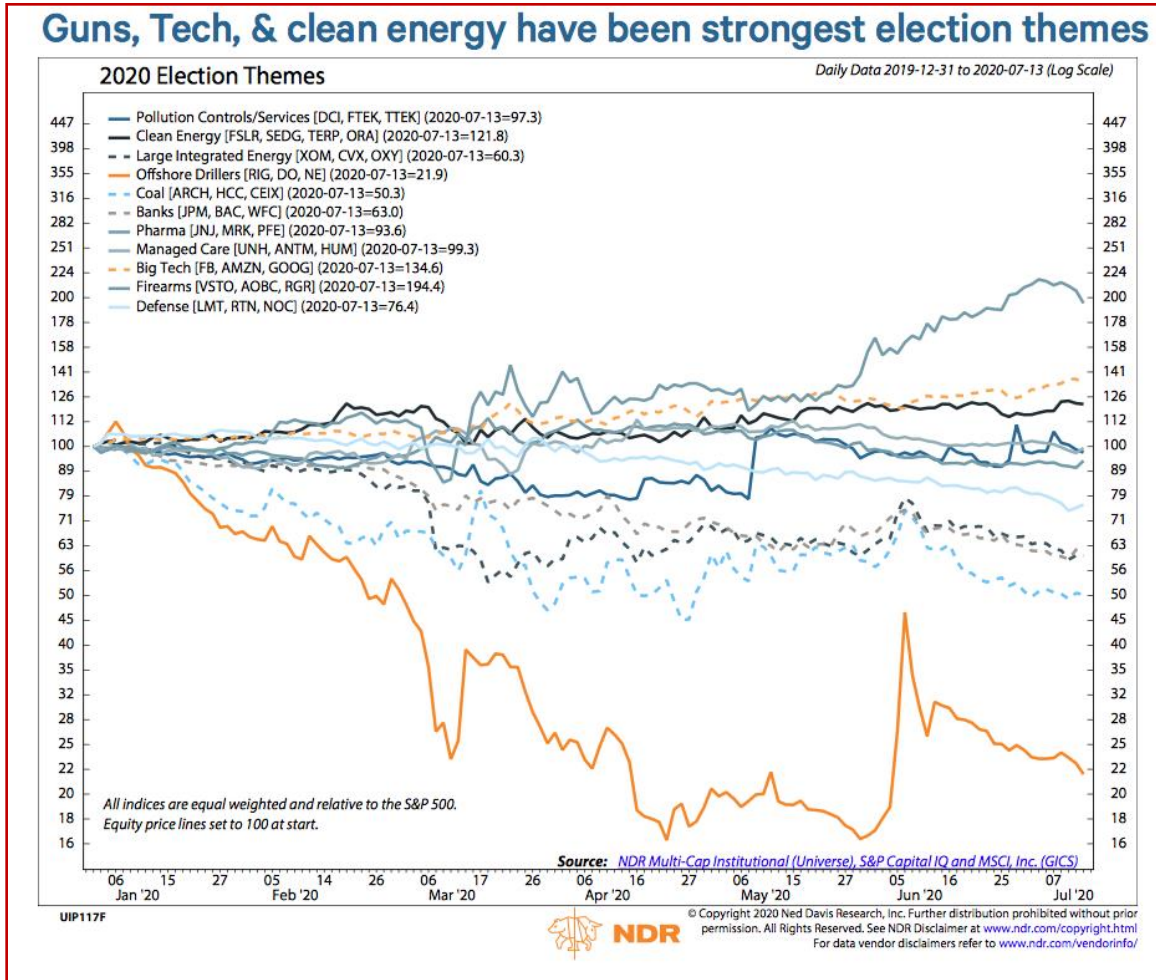
Source: S&P Capital IQ Compustat.

Ned Davis Research

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On the positive side a Democratic sweep would probably lead to more fiscal spending on much needed infrastructure projects, especially those geared to green energy and telecommunications for all.

So far this year the biggest industry winners have been Guns (up 94%), Big Tech (up 35%), and Clean Energy (up 22%). The biggest losers this year have been Offshore Drillers (down 78%), Coal (down 50%), Large Energy (down 40%), and Banks (down 37%).



Picking which industries will be winners or losers, based on who wins the election is actually harder than it seems. Most of the time the winners and losers are more a function of long-term economic trends, and the winning political party may just accelerate or slow a trend in place. A great example is Clean Energy. No matter who wins the election the trend away from fossil fuels towards clean energy alternatives will continue, it will probably happen faster under Biden but its happening nonetheless.

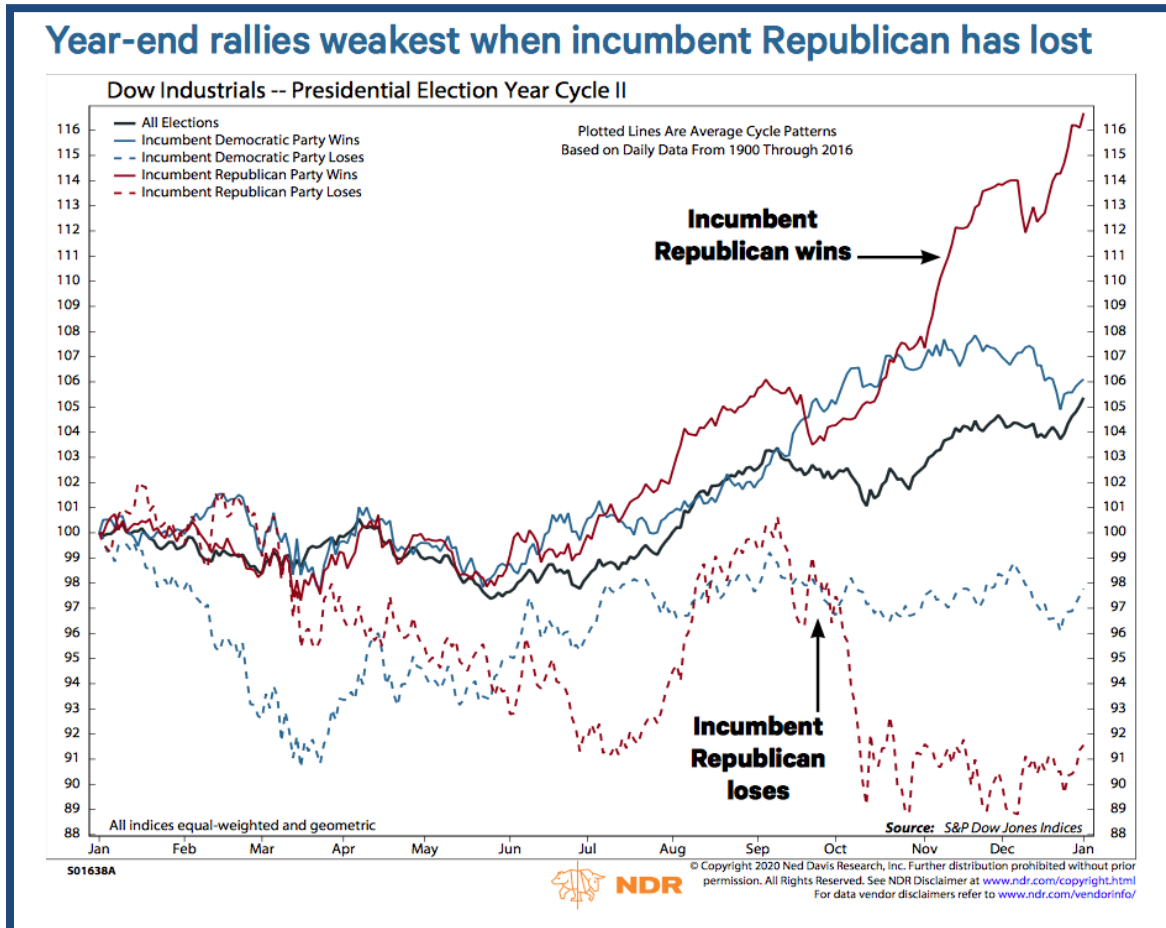
The following is a list of important economic metrics and industries and how we believe they will behave depending on who the president is.

- **Economic Growth** – GDP will probably grow faster under a Trump presidency given his predilection to lower taxes, low interest rates, and lower levels of regulation. It's hard to see how Biden's higher taxes and increased regulation will lead to faster economic growth. Also while he was Vice President under Obama, they oversaw the slowest economic expansion in history with not one year of greater than 3% economic growth.
- **Unemployment** – Unemployment rates are generally a function of economic growth, and under Trump, prior to the pandemic the U.S. unemployment rate reached a record low of 3.6%. The only way we can see unemployment lower under Biden is if he sweeps and institutes a massive infrastructure program. People in Biden's camp also advocate for a Guaranteed Minimum Income, which inherently leads to higher levels of unemployed.
- **On-shoring Manufacturing** - Both parties would like to incentivize companies to bring manufacturing back to the US. Biden's party will probably use more stick while Trump's party will use more carrot.

Both parties will have different agendas and outcomes when it comes to specific industries:

- **Financials** – The Democratic Party is no fan of the big banks and it is safe to see how regulations in the banking industry will be increased. Banks are already struggling in a zero rate world, and a democratic sweep would push them closer to regulated utility status. The market has already sniffed this out, and we've seen FinTech companies rise in market share. PayPal is now worth more than Bank of America, and Square has a larger market-cap than Goldman Sachs. The trend is in place, but the Big Banks will decline in importance faster under Biden.
- **Energy** – Again this is an industry where the long-term trend away from carbon and towards clean energy alternatives is firmly in place, as we can see by year-to-date performance. A Biden presidency will probably accelerate this trend, while a Trump victory may buy the incumbents some time.
- **Health Care** – Both candidates are for lower drug prices and they will both work to try and bring healthcare costs down. Both will also try and reward innovation in the biotech space, especially in fighting Covid-19. A democratic victory though would lead us more towards universal healthcare and will be a negative for medical insurance providers.
- **Technology** - Both parties are not opposed to technological advances, but they both are not very happy with the amount of power being wielded by so few companies. While it is clear that consumers have benefited greatly from the likes of Amazon, Apple, Google, Facebook, Microsoft, etc. politicians naturally hate when a group of companies power rivals theirs. Breakups and increased regulation will be coming to these big tech companies, probably faster under a Democratic Party sweep.

As for the market overall, historically it has reacted best when an incumbent Republican has won, and acted worst when the incumbent Republican has lost. If we've learned anything in 2020 it's to expect the unexpected.



In summary, the media will probably make it seem like there are major differences between how different segments of the economy will perform under different presidencies, but in reality the truth is much more nuanced. Long-term trends are more important than short-term presidencies. We'll survive this no matter who wins, and as The Who said:

***I'll tip my hat to the new constitution
Take a bow for the new revolution
Smile and grin at the change all around
Pick up my guitar and play
Just like yesterday
Then I'll get on my knees and pray
We don't get fooled again
Don't get fooled again
No, no!***

***Meet the new boss
Same as the old boss***

Be careful out there.



Where Trust is Earned

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